

1989 ANNUAL REPORT



15TH ANNUAL REPORT

For the fiscal period ended December 31, 1989.

BUSINESS PURPOSE

The Manitoba Data Services Act states that: "The aim and object of the Commission is to provide and maintain computer and data processing services available to the government, government agencies and government supported institutions and, subject to this Act, other persons."

This aim and object has been further developed by the Executive and Board into a number of mission statements that collectively define the business purpose of Manitoba Data Services:

- To provide computer related products and services to the Manitoba public sector
- To be financially self-sufficient
- To establish technical expertise and competence which will provide leadership and direction to the Manitoba Government in computer technology and will develop a reputation comparable to successful similar enterprises in Canada
- To offer computer related products and services which facilitate the achievement of productivity gains by its clients
- To make available efficient and effective computer services throughout Manitoba as is economically feasible
- To operate a business that provides a source of high technology employment in Manitoba
- To make available computer related services which might otherwise be provided from outside of Manitoba



March 15, 1990

The Honourable George Johnson
Lieutenant-Governor of the Province of Manitoba

Sir:

I have the honour of respectfully submitting to you
the Annual Report of Manitoba Data Services for the
fiscal period ended December 31, 1989.

Clayton Manness

Clayton Manness
Minister Responsible for Manitoba Data Services



March 15, 1990

The Honourable Clayton Manness
Minister Responsible for Manitoba Data Services
Legislative Building
Winnipeg, Manitoba

Dear Sir:

In accordance with the Manitoba Data Services Act,
I am pleased to present the Annual Report for
Manitoba Data Services for the fiscal period ended
December 31, 1989.

Yours truly,

A handwritten signature in dark ink, appearing to read "Rod Pennycook". The signature is stylized with a large, sweeping "R" and a long, horizontal stroke extending to the right.

Rod Pennycook
Acting Chairman for Manitoba Data Services

BOARD OF COMMISSIONERS



Acting Chairman
of the Board

Rod Pennycook

Executive Vice President
Corporate Resources
The Great-West Life
Assurance Company

Commissioners



R. Murray Fraser ±

Senior Vice President
Corporate Development
Manitoba Hydro



Christopher Medland ±‡

Vice President
Corporate Finance
Richardson Greenshields



Rees Jones *‡

Senior Vice President
Trust
Investors Group Inc.



Dennis Wardrop *

Executive Vice President
Manitoba Telephone System

Ex Officio Members

Peter Aimoe

Systems Technical Specialist
Manitoba Data Services

Melissa Pidsadny

Client Support Administrator
Manitoba Data Services

Rick Lussier

Director
Information Systems
Support Branch
Manitoba Finance

±Member of the Audit Committee

*Member of the Procurement Committee

‡Member of the Compensation Committee

ANNUAL REPORT OF THE PRESIDENT AND GENERAL MANAGER



Jim Chalmers

President and General Manager

In 1989 Manitoba Data Services (MDS) marked its 10th consecutive year of positive operating results, reporting a net income of \$3.4 million on revenues in excess of \$33.2 million.

As in the past nine years, these positive results enabled us to reduce the rates charged to our subscribers. A selective change to the schedule of rates, effective January 1, 1989, provided our clients an overall saving of five per cent on the cost of processing their work. In conjunction with previous rate reductions, this means work that cost one dollar to process in 1981 can now be done for only 43.3 cents. These improving economies reflect progress in the industry together with innovative programs we have introduced to boost our own productivity.

Revenue growth of 10.5 per cent in 1989 over the previous year translates into a 15 per cent increase in real growth when adjusted for the rate reduction announced at the beginning of the fiscal year.

Support to client online applications continues to make a major contribution to business growth. As of November 1989, monthly transactions numbered 16.4 million—an increase of more than two million per month over the previous year. Not surprisingly, this growth in the use of online systems has been accompanied by an increase in the number of terminals connected to our communication network. By the end of the year, MDS' province-wide network had grown to over 6,600 display terminals accessing a wide range of public sector administrative systems, including those of the Provincial Departments, Manitoba Hydro, Manitoba Telephone System and the Manitoba Public Insurance Corporation. Of this number, 805 units are now located in 20 cities and towns outside Winnipeg. This growth in rural access to the services available from our Norquay computer centre contributes to the provincial government's goal of administrative decentralization.

Two large, new systems contributed significantly to our growth in 1989. Following a successful trial of its Billing and Records System (BARS) last August in Portage la Prairie, Manitoba Telephone System began a provincewide implementation which will be completed when Winnipeg is converted in mid-1990. The other major implementation, by the Department of Rural Development, resulted from a decision to upgrade the Provincial Assessment

System. Originally automated in the early '60s, this system was one of the Manitoba Government's first computer applications. The new system represents a more highly automated approach to the business of property assessment and is accessible online from each of the department's 10 regional offices.

Growth continued in MDS' health care market during 1989. In its Unisys service component, implementation of the Salvation Army Grace General Hospital and The Pas Health Complex doubled the number of hospitals supported on the provincial system. Planned implementations at the Dauphin and Thompson General Hospitals in 1990 will bring to nine the number of provincial hospitals to which MDS provides patient administrative support services through its IBM and Unisys offerings.

In 1989 our facilities management service increased when the Department of Finance contracted with MDS to acquire and operate computers in support of the province's agreement with Wang Canada Limited. Under the five-year contract, MDS will install three computers in the Norquay facility, dedicated to automating the Legislative Building offices. While our component of the agreement—which focuses on office automation, including a trial of Wang image technology—got under way in mid-1989, the client began implementing the services toward the end of the year.

The Public Access Service, forecast in last year's report and announced to the public in March 1989, received enthusiastic acceptance, particularly from law firms and financial institutions. With more than 250 subscribers enrolled by year-end, we expect continuing growth in this market as new data bases are added to the seven now available.

New business ventures initiated in 1989 included an agreement with Digital Equipment of Canada Ltd., under which MDS will market computer equipment manufactured by this company. A number of sales have already been completed and we expect this type of venture will become an increasingly important aspect of our business. In a related endeavor MDS also expanded into the marketing of personal computer solutions. This enables us to offer clients a full range of personal computer services, including consulting, training and customized application development.

The security and privacy aspects of our business attained an important milestone in 1989, with virtually universal implementation of MDS' privacy system—RACF—throughout our client base. Realization of this goal greatly enhances the level of data privacy and security for the Manitoba public sector.

In the May 1989 Speech from the Throne, the Manitoba Government announced it would consider proposals for the divestiture of Manitoba Data Services. In so doing, it indicated this action would be taken on the basis of private sector proposals which would assure significant, new high-technology growth in Manitoba. Negotiations continued throughout 1989 and are expected to conclude by the spring of 1990.

Early in the year, Mr. Robert Silver resigned as Chair of the Manitoba Data Services' Board of Commissioners, due to his relocation to British Columbia. During the four years he chaired the MDS Board, Mr. Silver was an enthusiastic and highly valued contributor to the corporation's successes.

For Manitoba Data Services, 1989 saw exciting new development and growth along with the possibility of unprecedented directions. Our strength has always been the high calibre and dedication of the people who have chosen to make their careers with the corporation. Their skill and competence continue to be the singular most important ingredient to Manitoba Data Services' success.

YEAR IN REVIEW



Jim Jones

Vice President
Client Support Services



Gary Campbell

Vice President
Corporate Services



Norm Shakespeare

Vice President
Operations Support Services

- In 1989 we reduced the rates for using our services by five per cent.
- Revenues for 1989 were \$33.2 million, a 10.5 per cent increase over 1988. With expenses of \$30.2 million, the corporation realized a net income for 1989 of \$3.1 million.
- Retained earnings increased to \$12 million in 1989.
- Online transactions reached 16.4 million per month, an increase of two million per month over 1988.
- In April 1989, we upgraded our 3090-200 model processor complex to a 3090-200S model, which increased the processor's capacity by 30 per cent and doubled the main storage to 128 megabytes.
- Early in 1989 the MDS *Serviceguide* was made available online, providing easy, immediate access to documentation on MDS policy and procedures, and information on MDS products and services.
- As a result of signing a five-year contract with STM-Sungard Recovery Services, MDS' disaster recovery services are now located in Toronto instead of Chicago. As well as eliminating past difficulties

experienced with customs, locating this service in Canada will allay clients' concerns about having their confidential data outside of Canadian jurisdiction.

- The Justice Department's Office of the Public Trustee started development of one of the largest DB2 applications of its kind to be implemented by an MDS client. The application, slated for implementation in April 1990, will be used to administer estates of mentally disabled persons, estates of the deceased and infant trusts, as well as related legal cases.
- By year end more than 250 subscribers had enrolled in the Public Access Service, the first service in Canada to offer dial-in public access to multiple government data bases through a common sign-on protocol.
- 1989 saw the formation of the Affirmative Action Program Committee at MDS. The committee's mandate is to design, develop and implement a formal Affirmative Action Program for MDS.
- The MDS Client Training Committee was established in 1989 to provide for open discussion of information systems (IS) training issues, to solicit input and feedback on the adequacy and value of MDS training programs and services, and evaluate new programs and future opportunities. Represented are government departments and Crown corporations.
- The Education Planning Guide for MDS Products and Services was developed and implemented on a trial basis with selected clients. The guide is intended to assist MDS clients in identifying, planning and budgeting for their IS education requirements.
- MDS clients participated in 1591.50 student days of MDS education and training events, an 84.7 per cent increase over last year's participation. Clients also took 2,354 hours of computer-based training, an increase of 422 hours over 1988. Education and training events include classroom courses, MDS A.M., satellite seminars, product overviews and awareness sessions.
- More than 80 civil service executives and managers attended the MDS-ISSB third annual Productivity and Technology Seminar in September. Speaker Dr. James Wetherbe urged his audience to use the tools technology has made available to improve the way their organizations manage information.
- MDS received the United Way Leadership Award for the fifth consecutive year. Staff contributed \$19,521, a 6.5 per cent increase over 1988. Combined with the corporation's matching grant, the total donation was \$39,043.

AUDITOR'S REPORT

We have examined the balance sheet of Manitoba Data Services as at December 31, 1989, and the statements of income and retained earnings, changes in financial position and accompanying notes to the financial statements for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements and accompanying notes present fairly the financial position of Manitoba Data Services as at December 31, 1989, and the results of its operations and the changes in financial position for the year then ended in accordance with the accounting policies as stated in notes 2 and 7 to the financial statements applied on a basis consistent with that of the preceding year.



F. H. Jackson, CA
Provincial Auditor

February 16, 1990
Winnipeg, Manitoba

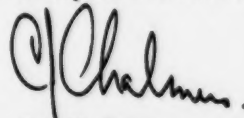
MANAGEMENT REPORT

Management is responsible to the Board of Commissioners for the financial statements of the corporation.

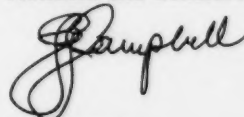
The Commission maintains a system of internal control which is designed to provide management with reasonable assurance that client data and other assets are safeguarded and that reliable operating and financial records are maintained. This system includes written policies and procedures, an internal audit program and an organizational structure which provides for appropriate delegation of authority and segregation of responsibilities. The Commission has also instituted policies and guidelines which require employees to maintain the highest of ethical standards.

The Provincial Auditor's report, based upon an examination of the financial statements, is enclosed. In addition, the Provincial Auditor reviews the Commission's system of internal control in accordance with generally accepted auditing standards for the purpose of expressing an opinion of the financial statements.

The Board of Commissioners has reviewed and approved these financial statements. To assist the Board in meeting its responsibility, it has appointed an Audit Committee which meets with management and with the Provincial Auditor to review audit and financial reports and other related matters.



C. J. Chalmers
President and General Manager



J. G. Campbell
Vice President, Corporate Services

BALANCE SHEET

As at December 31, 1989

(in thousands of dollars)

	1989	1988
ASSETS		
Current assets		
Cash and short term investments	4,641	2,604
Accounts receivable	4,747	3,401
Prepaid expenses	21	16
	9,409	6,021
Fixed assets (note 3)	8,917	7,972
Other assets (note 4)	11,406	9,621
	29,732	23,614

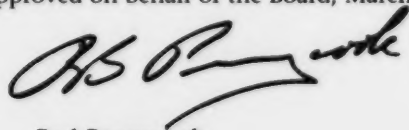
LIABILITIES

Current liabilities		
Accounts payable	2,466	712
Current portion of long-term debt	1,002	630
Current portion of obligations under capital lease	212	719
	3,680	2,061
Long-term debt (note 5)	6,489	5,947
Obligations under capital lease (note 6)	120	321
Retirement liability (note 7)	7,381	6,380
	17,670	14,709

EQUITY

Retained earnings	12,062	8,905
	29,732	23,614

Approved on behalf of the Board, March 15, 1990



Rod Pennycook
Acting Chairman



Murray Fraser
Chairman
Audit Committee

STATEMENT OF INCOME AND RETAINED EARNINGS

As at December 31, 1989

(in thousands of dollars)

	<u>1989</u>	<u>1988</u>
Revenues	33,437	30,126
Expenses		
Operating and administrative	24,708	22,285
Depreciation and amortization	4,186	3,924
Retirement cost (note 7)	1,064	973
Interest on obligations under capital lease	58	126
Interest on long-term debt	695	688
Gain on disposal of equipment	(431)	(72)
	<u>30,280</u>	<u>27,924</u>
Net income for the year	3,157	2,202
Retained earnings— beginning of year	8,905	6,703
Retained earnings— end of year	12,062	8,905

STATEMENT OF CHANGES IN FINANCIAL POSITION

As at December 31, 1989

(in thousands of dollars)

	1989	1988
Funds provided from(used in)		
Operations		
Net earnings for the year	3,157	2,202
Items not affecting cash —		
Depreciation and amortization	4,186	3,924
Retirement cost	1,064	973
Long-term receivable	(1,043)	(1,309)
Gain on disposal of equipment	(431)	(72)
	6,933	5,718
Changes in non-cash working capital components	403	(4,372)
	7,336	1,346
Financing		
Repayment of long-term debt	(650)	(479)
Payments of obligations under capital lease	(708)	(401)
Retirement & vested sick leave costs	(63)	(39)
Increase in long-term debt	1,564	1,475
	143	556
Investments		
Purchase of fixed assets	(4,844)	(1,896)
Purchase of software licenses	(452)	(500)
Proceeds on disposal of fixed assets	737	2
Allocation to retirement plan	(883)	(775)
	(5,442)	(3,169)
Increase (decrease) in cash and cash equivalents	2,037	(1,267)
Net cash and cash equivalents — beginning of year	2,604	3,871
Net cash and cash equivalents — end of year	4,641	2,604

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 1989 (all tabular figures expressed in thousands of dollars)

1. ORGANIZATION

The Commission was established on June 15, 1979 under the Manitoba Data Services Act. Due to its standing as a commission, Manitoba Data Services has no share capital and is not subject to income tax.

2. SIGNIFICANT ACCOUNTING POLICIES

Short term investments

Short term investments are carried at cost, which is equal to market. The total short term investments amount to \$11,117,000 (1988 - \$7,400,000) of which \$6,539,000 (1988 - \$5,656,000) has been designated to fully fund the Retirement Liability. Interest earned on these designated funds is included in Revenue.

Prepaid expense

It is the Commission's policy to expense the payments made under software maintenance contracts. At December 31, 1989 an amount of \$233,000 (1988-\$189,000) representing future benefits available to the Commission under these contracts has been included in operating and administrative expenses for the year.

Fixed Assets

Fixed assets are recorded at cost. Leases are capitalized at the lesser of fair value and the present value of the net minimum lease payments.

	Years
Furniture and fixtures	5 to 10
Computer equipment	3 to 4

Depreciation and amortization of owned and leased assets are provided on a straight-line basis.

Current liabilities

The Commission does not record accrued vacation pay or time off in lieu of overtime worked. The unrecorded liability as at December 31, 1989 is approximately \$779,000 (1988 - \$703,000).

3. FIXED ASSETS

	1989			1988
	Cost	Accumulated depreciation	Net	Net
Furniture and fixtures	1,167	629	538	519
Computer equipment				
-owned	16,792	8,572	8,220	7,009
-capital lease	1,011	852	159	444
	18,970	10,053	8,917	7,972

The net book value of computer equipment - owned includes \$5,733,000 (1988 - \$3,708,000) for equipment designated for exclusive use in the health care program and in the Department of Finance imaging program.

4. OTHER ASSETS

	1989	1988
Proprietary software	1,321	1,607
Leasehold improvements	568	423
Long-term accounts receivable	2,978	1,935
Retirement fund (note 7)	6,539	5,656
	11,406	9,621

Proprietary software is shown net of amortization of \$3,196,000 (1988 - \$2,458,000). Leasehold improvements are shown net of amortization of \$619,000 (1988 - \$678,000). Leasehold improvements and proprietary software are amortized over a 2 to 5 year period.

Long-term accounts receivables are extended to clients in support of financing client computer acquisitions. Principal amounts receivable in the current year is \$148,000 (1988 - \$151,000).

5. LONG-TERM DEBT

Long-term debt consists of the following:

	1989	1988
May 1, 1988 loan from the Province of Manitoba of \$770,657 to fund Manitoba Hydro computer purchase bearing interest at 10.13% repayable at \$16,422 monthly expiring April 1993.	556	689
July 1, 1988 loan from the Province of Manitoba of \$700,000 bearing interest at 10.38% repayable at \$15,002 monthly expiring June 1993.	526	645

(continued on page 12)

	1989	1988
--	------	------

5. LONG-TERM DEBT (continued)

September 30, 1987 loan from the Province of Manitoba of \$5,660,084 to fund the health care program computer purchase, bearing interest at 11.0% repayable at \$77,968 monthly expiring September 1997. 4,865 5,243

December 1, 1989 loan from the Province of Manitoba of \$1,315,000 to fund Department of Finance imaging program computer purchase bearing interest at 10.75% repayable at \$31,769 monthly expiring March 1993. 1,296 —

December 30, 1989 loan from the Province of Manitoba of \$248,000 to fund Department of Finance imaging program computer purchase bearing interest at 11.13% repayable at \$6,134 monthly expiring March 1993. 248 —

	7,491	6,577
Less: Current portion	1,002	630
	6,489	5,947

6. LEASE OBLIGATIONS

Future minimum payments under capital and operating leases together with the present value of the net minimum payments under capital leases are as follows:

	Leases	
	Capital	Operating
1990	231	7,927
1991	96	3,685
1992	32	2,836
	359	14,448
Less: Interest element (weighted average 10.4%)	27	
Present value of net minimum lease payments	332	
Less: Current portion	212	
Capital equipment leases payable	120	

- In 1987, the Commission entered into a 39 month operating lease agreement for a central processor which is payable at \$342,000 per month with several options to purchase.
- The Commission entered into a 45 month operating lease agreement in 1989 for a second central processor which is payable at \$186,000 per month for the first 11 months and \$250,000 for the balance of the agreement.

The termination fee related to the previously leased processor was waived by the supplier and has been recorded as a gain on disposal of equipment in the statement of income and retained earnings.

7. RETIREMENT LIABILITY

The Commission has a defined benefit pension plan which covers all employees within the group. Administration of the plan is through the Manitoba Civil Service Superannuation Fund. The cost of pension benefits is charged to earnings in the current period. Adjustments arising from plan amendments or experience gains or losses are amortized over a three-year period based upon the triennial actuarial report. The present value of the pension obligation as determined by the actuarial formula at December 31, 1989 is \$6,539,000 (1988 - \$5,656,000). The last valuation was as at December 31, 1986.

The Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants has issued a statement concerning the accounting for pension obligations. The statement recommends that adjustments due to experience gains and losses be amortized to the liability and the related expenditures over the expected average remaining service life (EARS) of the employee group. Implementation of this recommendation at December 31, 1989 would result in an increase in operating expenses and liabilities of \$145,000 and \$450,000 respectively with a decrease in Retained Earnings of \$305,000. This recommendation was brought forward in November 1988 with no stated implementation date.

A portion of the employee's unused sick leave allowance is vested and payable upon termination of employment. The vested liability is not funded and at December 31, 1989 an amount of \$842,000 (1988 - \$724,000) has been included in the retirement liability.

8. RELATED PARTY TRANSACTIONS

Substantially all revenue earned by the Commission and related accounts receivable are from departments of the Government of the Province of Manitoba, its Crown corporations and agencies.

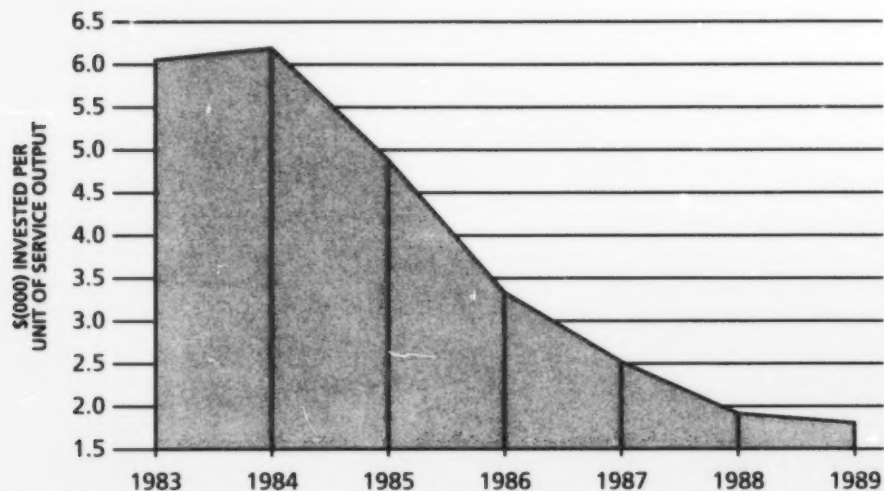
9. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the presentation in 1989.

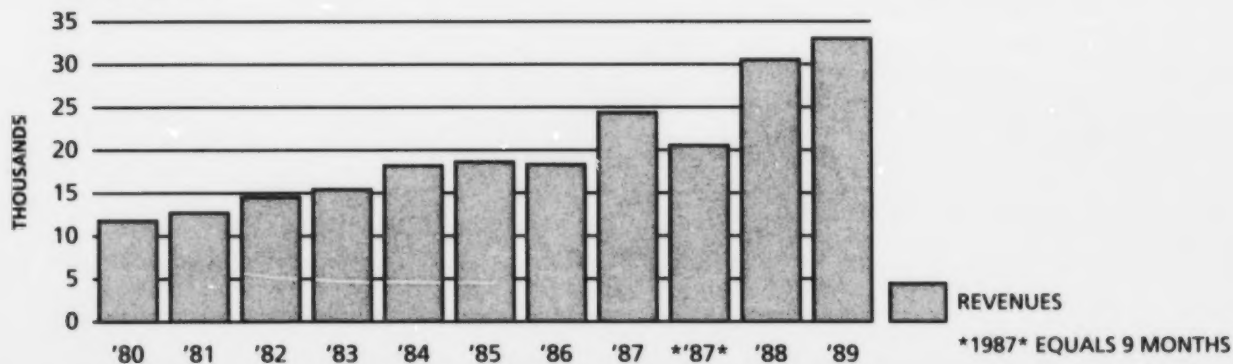
5. LONG-TERM DEBT

Department of Finance loans
expire March 1994 not
March 1993 as indicated.

COST PERFORMANCE IMPROVEMENT



REVENUE



AVERAGE PRIME WORKLOAD

